

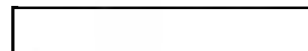
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DIA and DOS review(s) completed.

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1. THE BERLIN SITUATION

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Recent East German actions and propaganda statements indicate that the detention of two American congressmen on 27 November was the first of a series of new Communist harassments designed to force Western recognition of East Germany and its authority over the Soviet sector of Berlin. While Al-

lied access to East Berlin will probably not be cut off, the German Democratic Republic (GDR) will try to make access subject to its laws. Western acceptance of this situation would imply recognition of East German authority over East Berlin.

According to the Western press, the Communists have now informed Bonn that the East and West German traffic ministries must negotiate on the future of canal traffic through the GDR to Berlin. The East German regime in October refused to renew yearly shipping permits for barges bringing supplies to the Western sector, but barge traffic has continued.

New measures to restrict the movements of Berliners are foreshadowed by a "particularly bitter" speech on 30 November by the East sector's Mayor Ebert, according to the American mission in Berlin. The threat of such restrictions was implied in Ebert's statement that the West Berlin administration must bear responsibility for all difficulties for the West Berliners arising from its policy of "sabotage and disruptive activities" against East Germany.

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2. AFGHANISTAN THREATENS TO DROP AMERICAN DEVELOPMENT PROJECT

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Foreign Minister Naim has "forcefully" told Export-Import Bank representatives now in Kabul that the American-constructed Helmand Valley power and irrigation project is such a drain on Afghanistan's limited financial resources and has such poor prospects for success that the Daud government has serious doubts on whether to continue the project. According to Naim, both the government and the people are becoming increasingly critical of Morrison-Knudsen, the American construction company, as well as of the project itself.

Finance Minister Malik expressed similar views and bluntly stated that Afghanistan would invest no additional funds in the Helmand project. He asserted that the United States would have to supply more financial assistance to complete it.

Ambassador Ward comments that these interviews strengthen earlier suspicions that Afghanistan is attempting to provoke the American company into canceling its contract. Ward also fears that these moves may be part of a larger scheme, encouraged by the USSR, to remove American influence from Afghanistan.

Comment

Naim and Malik may have overstated Afghan disillusionment in order to press for American financial assistance. However, their views reflect the sharply critical attitude Afghan officials have had this past year toward the Helmand Valley project--which was begun at Kabul's desire and is financed to a considerable extent by Export-Import Bank loans amounting to \$39,200,000.

The blunt Afghan criticism may also be in part inspired by the recently reported Soviet offer to pay off the American loan and take over the Helmand project on very favorable terms. (Concurred in by ORR)

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3. SUPREME SOVIET SESSION CALLED FOR LATE DECEMBER

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The USSR Supreme Soviet meeting scheduled for 23 December has most probably been called to hear a report on the current trip of Bulganin and Khrushchev to India, Burma, and Afghanistan. The recent foreign ministers' conference at Geneva may also be discussed. Discussion and ratification of other problems at this time appears extremely unlikely.

The report to the Supreme Soviet, as a follow-up to the August report on the summit meeting, will probably emphasize--as propaganda has--that while the foreign ministers' meeting reached no agreements it made progress in publicizing and clarifying the issues. While the West will be blamed for the lack of immediate agreement, major emphasis is likely to be placed on the long-run prospects for agreement because of growing public support for the conciliatory proposals of the USSR.

Most attention during the session will presumably be devoted to the success of the South Asian trip, as a means of demonstrating Moscow's continuing devotion to the spirit of Geneva and Bandung. Thus stress will be placed on the common interests of the USSR, India, Burma, and Afghanistan and other Afro-Asian powers in the "five principles," their mutual opposition to colonialism and military blocs, and the progress the Asian countries can make with Soviet economic and technical assistance.

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4. RUMANIAN LEADER PROMISES CO-OPERATION TO IMPROVE RELATIONS WITH US

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[REDACTED] Party First Secretary Gheorghiu-Dej, in an unprecedented conversation at the Yugoslav national day reception in Bucharest on 29 November, stressed to American minister Thayer the need to build up close cultural and economic relations between Rumania and the United States. Dej expressed great interest in arranging for increased trade and promised Rumanian co-operation in removing the retaliatory measures which have been set up in the past.

Soviet ambassador Yepishev's efforts to break up the two-hour conversation were ignored by the Rumanians.

Comment While lesser Rumanian officials have expressed a willingness to take mutual steps to improve relations, this is the first time that Gheorghiu-Dej has discussed the subject with Western officials.

Yepishev, like most of the other Soviet ambassadors to the Satellites, is a career party official. Although the Rumanians' apparent lack of respect for him seems unusual, similar instances have been noted previously by Western diplomats in conjunction with his predecessor. Rumanian leaders have shown greater deference to M. B. Mitin, the editor of the Cominform journal in Bucharest, suggesting that he is the most important Soviet representative in Rumania.

5. USSR OFFERS LOAN TO LOWER AUSTRIA

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[redacted] State Secretary Kreisky of the Austrian Foreign Ministry has informed the American embassy that negotiations for a Soviet loan of 800 million schil-

lings (about \$30,000,000) to the Lower Austrian government had been going on for some time. He said that apparently the Austrian ambassador in Moscow and the People's Party members of the Lower Austrian government had been involved, with the Foreign Ministry not informed as far as he knew.

The terms for the loan would be 20 years at 3 percent, and the USSR insists on the loan being guaranteed by the Austrian government, but no further conditions are known.

Kreisky was opposed to the loan and thought it could be blocked, but he understood that Chancellor Raab had told the People's Party in Lower Austria that he would not oppose it.

Comment

The loan is presumably to be used to meet the financial needs of NIOGAS, an oil company formed during October by the Austrian People's Party in partnership with the government of Lower Austria, which it dominates. NIOGAS was created to loosen the hold of the Socialist-dominated Ministry of Nationalized Industry on former Soviet-administered oil properties, and Socialist members of the federal coalition would probably block government agreement to the loan.

. In addition to gaining an economic toehold in Austria, the Soviet Union would be interested in making it unnecessary for NIOGAS to seek financial aid or technical assistance from Western interests.

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THE ARAB-ISRAELI SITUATION
(Information as of 1700, 4 December)

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The Israeli army reports a patrol clash on the Gaza frontier. Otherwise there has been no military activity.

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As the result of efforts by Colonel Cyril Banks, member of the British Parliament and an economic adviser to Egyptian prime minister Nasr, both Cairo and Tel Aviv reportedly have agreed to refrain from all firing on the frontier. According to information given to the American consul general in Jerusalem, this new cease-fire is to go into effect after a public announcement concerning the arrangement is made in the British Parliament, possibly on 5 December. The El Auja demilitarized zone is apparently not included, since Nasr insisted that Israeli settlers be removed from the area, and Israel reportedly did not agree to this. Banks achieved this qualified arrangement after talks with Nasr and top Israeli officials.

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It is difficult to envisage a long-lasting cease-fire on the Egyptian-Israeli border as a result of the present effort, but even a temporary lessening of tensions may furnish opportunity for further negotiations.

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Syrian chief of staff Shuqayr informed the American army attaché in Damascus on 3 December that he had been "approached" on organizing terrorist Fedayeen operations against Israel. After consulting with the Lebanese chief of staff he had told the Egyptian military attaché that neither Syria nor Lebanon would permit terrorist operations from its territory, since Israel would inevitably retaliate. In the event of full war, neither Syria nor Lebanon would oppose the use of the Fedayeen.

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The Arab states are intensifying their efforts to cut off Israeli oil supplies as well as continuing other normal boycott measures.

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According to a 3 December Cairo radio report, the Arab governments will request the Soviet Union to cancel its trade agreement with Tel Aviv under which it exports substantial quantities of oil to Israel. Another Cairo radio report states that the Arab governments will ask Italy to suspend implementation of the Italian-Israeli trade agreement which permits Israel to import up to \$1,500,000 worth of Italian oil. Italy has already officially promised not to supply oil to Israel, according to the director of Arab League petroleum affairs.

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Although it is doubtful that the Soviet Union and Italy will accede to Arab pressure, any cutting off of oil from these sources would force Israel to revert to importing Venezuelan oil and paying higher transportation costs.

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